



Written Neutral Testimony on House Bill 2560

House Taxation Committee Wednesday, February 8, 2012

Chairman Carlson and Members of the Taxation Committee:

My name is Jennifer Bruning, and I am Vice President of Government Affairs with the Overland Park Chamber of Commerce. I am submitting written testimony today as a neutral conferee on House Bill 2560 on behalf of our Board of Directors and our nearly 1,000 member companies.

As the pro-business voice of our members, the OP Chamber commends Governor Brownback for his bold approach to reforming Kansas' tax policy to grow more private sector jobs. We agree that tax policy must be analyzed on a regular basis to ensure that our State is as "business-friendly" as possible and that all policies are meeting anticipated goals. Our members support a balanced and reasonable approach to tax reform that continues to provide or enhance a positive business climate. We, too, share the Governor's vision for the future: thriving businesses, added jobs, increased income and opportunity.

All bold plans merit sound analysis, and we would like to share with you our thoughts about the proposal before you.

- The OP Chamber/EDC is the economic development organization for Overland Park, and we are on the frontline of recruiting, expanding and retaining businesses in our region. Even through the current recession, our economic development efforts have been extremely successful. We have learned that it is not tax policy alone that influences a company's location/expansion decision, but a blend of several components that include access to highways, the quality of the workforce, good infrastructure, and the quality of life in the surrounding community. In the last six months alone, Kansas has twice been given high marks as a pro-business state. Last summer Kansas was ranked 6th in the country of pro-business states by Pollina Corporate Real Estate, Inc. and 11th in "Top States for Business" by CNBC. Our unemployment rate is also now one of the lowest in the nation.

- The OP Chamber made the difficult decision two years ago to support a **temporary** revenue enhancement so that essential government services could be adequately funded after years of devastating cuts. Knowing that current state revenues are now above projections, we do not support a tax reform plan that does not sunset the sales tax increase in FY13 as promised.
- Our Chamber has a long-standing position against any restrictions of legislative authority regarding taxing or spending, including revenue/spending lids like the one proposed in HB 2560 which uses a 2% revenue growth trigger mechanism to eventually eliminate the state income tax. This proposal does not factor in inflation, and it seems to hobble future attempts to make core government services like education, Medicaid, social services and KPERS sustainable. Currently KPERS is \$8+ billion underfunded, and it is estimated that both KPERS and Medicaid will equate to almost 25% of the state revenue fund budget in 2012. How can the State keep up with its obligations while trying to eliminate a key revenue source at the same time?
- As a border community, and as a key economic engine of the State (generating over 1/3 of the state's economic growth), Johnson County must have stability and equability in its tax structure. If we were to narrow our state's tax base, we become more susceptible to wide swings in our tax collections when specific segments of the economy experience downturns.
- The PEAK program has been an extremely successful and effective economic development tool for us, resulting in thousands of new jobs and capital investment in the State. As the program relies solely on individual incomes taxes for funding, we are concerned how the Governor's proposed tax reform plan to eventually eliminate that tax may detrimentally affect PEAK use.
- We like the proposal in the bill to eliminate income tax on all non-wage business income, but we realize that such a reduction in a business' Kansas tax liability will tend to increase the business' federal tax liability due to deductibility. We have asked our businesses that are eligible for this component in the plan to talk with their accountants to determine the impact of this provision.
- While we do not argue with the appealing nature of income tax reduction, we would like to see evidence of the proposed positive correlation between the lowering of income tax reduction and an enhanced rate of economic growth. A March 2011 study done by The Missouri Budget Project states, "There is no consistent relationship between state income tax and state economic growth. In fact, between 1997 and 2009, the states that rely on an income tax, on average, obtained a state product growth rate that was substantially similar to the average growth rate seen in the non-income tax states."

Before embarking on a measure as large as what is proposed in HB 2560, we respectfully urge you as policymakers to take the time to fully understand the bill's future impact on our State. Thank you for your consideration.

